

MARKET REPORT

INDUSTRIAL

Phoenix Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS


2H/19

Phoenix Industrial Growth Invigorated by Air Cargo; West Coast Ports Spill Over to Phoenix

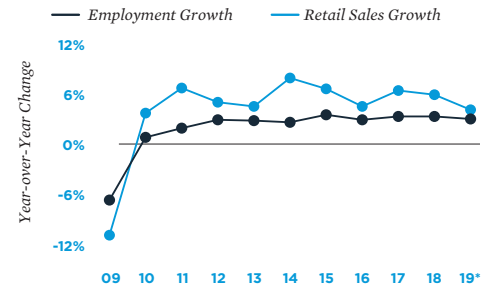
Industrial growth driven by new population and regional demand. Phoenix's location and abundant space make it enticing for industrial developers and investors. The metro's population rate grew at 2.0 percent over the past 12 months, well above the national rate. As new employers move here, the need for flex space and warehousing for logistics will continue to accelerate. Phoenix's proximity to the West Coast makes it a cost-effective location of choice for short-term import warehousing compared with the Inland Empire. Development is centralized toward the western part of the Valley, with clusters of construction in Tolleson and Litchfield Park. Chandler and Gilbert are locations of interest for developers as well, as Phoenix-Mesa Gateway Airport is developing an international customs agreement with Mexico for seamless cargo transport across the border. Sky Harbor, Phoenix's main international airport, is home to a FedEx Hub, UPS operations and Amazon Air. The abundance of industrial skilled manufacturing in the area has attracted companies like L3Harris, Boeing, Teradyne and others to make Phoenix their skilled manufacturing home.

As transaction volume grew 24 percent in the past year ended in June, many of the properties traded in the metro were warehouses and distribution centers. Within the city of Phoenix, manufacturing facilities remain a strong holdout with a sizable proportion of properties trading hands, just after warehouses. The average price per square foot in the metro jumped up 11 percent to \$125, with Scottsdale values ranking the highest at an average of \$156 per square foot, primarily due to several trophy assets trading. Cap rates across the Valley remained stable in the 6 percent range. Notably, the Deer Valley area cap rates compressed the most, by approximately 50 basis points into the mid-6 percent range. Here competitive bidding continues to remain intense for assets accessible to I-17 and the AZ-101 Loop, which connects to the I-10 to Los Angeles. In the same period, first-year yields in the city of Phoenix edged up to the high-6 percent range as investors sought value-add opportunities.

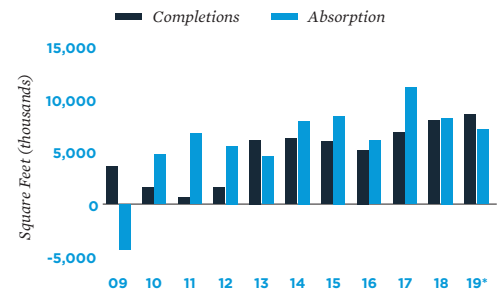
2019 Market Forecast

- Employment** up 3.0%  New jobs continue to make gains in the Phoenix metro as 65,000 jobs will be added to payrolls in 2019. The unemployment rate declined to 4.2 percent.
- Construction** 8.5 million sq. ft.  Development remains extremely strong in the metro and closes out 2019 with new completions exceeding last year's 7.9 million, and above the past two and three years' 6.8 million and 5.1 million square feet.
- Vacancy** up 30 bps  While vacancy had been falling for four consecutive years, it ticks back up to 7.3 percent, a rate last reported in 2017.
- Rent** up 3.6%  Average asking rent in the metro will be at its highest since 2009, edging up to \$7.19 per square foot. Rents will continue to rise as development curtails and new space is occupied for longer.
- Investment**  The Phoenix market will keep investors' attention as it becomes an intermediary for port activity on the West Coast and economic activity develops around the metro.

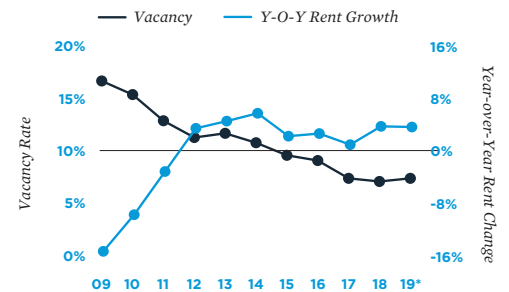
Employment vs. Retail Sales Trends



Industrial Completions



Asking Rent and Vacancy Trends



* Forecast

Sources: CoStar Group, Inc.; DAT Solutions; Phoenix-Mesa Gateway Airport Authority; Phoenix Sky Harbor International Airport; Real Capital Analytics; Moody's Analytics

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Metro-level employment, vacancy and asking rents are year-end figures and are based on the most up-to-date information available as of September 2019. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Sales data includes transactions valued at \$1,000,000 and greater unless otherwise noted. Forecasts for employment and industrial data are made during the third quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.